

PROGRAM FOR REVITALIZATION OF THE RURAL ECONOMY

(HO-0144)

EXECUTIVE SUMMARY

Borrower:	Republic of Honduras	
Executing agency:	Ministry of Agriculture (SAG)	
Amount and source:	IDB: (FSO)	US\$30,000,000
	Local:	US\$ 3,333,000
	Total:	US\$33,333,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4 years
	Interest rate:	1% for first 10 years, 2% for next 30 years
	Inspection and supervision:	1.0%
	Credit fee:	0.5%
Objectives:	The objective of the program is to help revitalize the Honduran rural economy, with emphasis on improving the competitiveness of rural productive sectors, especially the agrifood sector, and thereby help reduce poverty.	
Description:	The program will achieve its objectives by focusing on three areas of activity: (1) strengthening the capacity for the formulation of national policies on matters relating to the development of physical infrastructure and productive services in rural areas and the framework of incentives for production in the agrifood sector; (2) improving the quality of public plant and animal health and food safety services; and (3) promoting, through participatory mechanisms, the identification of deficiencies in the supply of goods and services of a public and community nature, and financing the necessary investment through demand-driven competitive processes.	
The Bank's country and sector strategy:	The proposed operation is in accord with the mandates of the Bank's Eighth Replenishment to strengthen and modernize the agricultural sector, as well as the operational policy on rural development and the strategies for rural poverty reduction and agricultural development.	

The operation is also consistent with the Bank's country strategy (see country paper), which stipulates that the Bank's operations in Honduras should: (1) help create the conditions necessary for long-term sustainable growth in gross domestic product (GDP), leading to a significant improvement in the real incomes of Hondurans and the beginning of a sustained process of poverty reduction; and (2), in close conjunction with the previous objective, help in meet the most urgent needs of the poorest segment of the population in terms of health, sanitation, education, and nutrition. The version of the country paper prepared after Hurricane Mitch is based on the Honduran Master Plan for Reconstruction and National Transformation (MPRNT) and proposes an assistance strategy that takes as its starting point the need to restart rapid growth and reduce poverty through the reconstruction process (see paragraph 1.14).

The proposed program responds to the conclusions and proposals of an assessment carried out in April 1999 by an interdivisional working group of the Bank's Regional Operations Department 2 and presented in the document "Honduras post-Mitch: problemas y oportunidades para el desarrollo de la economía rural" [Post-Mitch Honduras: Problems and Opportunities for Rural Economic Development].

**Environmental
and social
review:**

The strategy proposed in this operation is to improve the national policy framework in order to bring about an increase in the incomes of rural families by boosting the competitiveness of rural productive sectors. These actions are to be implemented with financing for investments deemed public goods. The program proposes a resource allocation scheme for investment in productive projects chosen through a competitive selection process, using a local participatory approach for project identification and selection.

The program will incorporate social equity criteria in the selection of the geographic coverage area, based on the human development index (HDI) of the municipalities. Predominantly rural municipalities with an HDI of under 0.6 are to be targeted. 252 municipalities would thus be eligible to participate, accounting for 80% of the country's rural population. Based on available statistical data, it is estimated that more than 75% of the target population for the project consists of poor rural inhabitants. With regard to gender considerations, under the component that includes productive projects for groups, one of the categories of projects and investments eligible for support will be projects that benefit women.

The environmental review conducted recommended measures to strengthen environmental management capacity through the incorporation of an environmental unit into the program. That unit—under an agreement with the national environmental authority, the

Ministry of Natural Resources and Environment will support the enforcement of environmental protection standards and the mitigation of any direct adverse environmental impact in projects carried out under the program. Environmental impact assessment procedures will also be incorporated into the methodology for analyzing the feasibility of productive investments, and the costs of mitigation measures will be factored into the investment costs for projects.

Benefits:

The program will yield benefits in the short and medium terms through its direct local, regional, and national impact.

Investment in activities such as rehabilitation of rural roads, for example, will have an immediate and foreseeable impact on income by reducing transportation costs. Transportation normally accounts for 10% of the price of a product on the market, which the program will reduce around 50%, thus yielding benefits equivalent to 5% of the value of production each year. Similar benefits are expected from the investments in rural electrification and telecommunications. Modern productive processes (owing to their reliance on new technologies) are highly dependent on these services, especially to increase value added at the farm level and reduce transaction costs throughout the chain of production (e.g., through improvements in communication systems). In sum, the investment in production proposed under the program will help increase income in rural areas by reducing production and transaction costs and will promote private investment in the target areas.

The improvements in the quality of plant and animal health and food safety services will have national impact, which will also be immediate benefits by enhancing the competitiveness of Honduran agricultural exports on international markets.

In the short, medium, and long terms, the development and implementation of national and sectoral policies is also expected to create a framework of incentives that will lead to improved competitiveness in rural areas and consequently to higher rural incomes.

Risks:

In order to fully realize the benefits of the program, it will be necessary to achieve close complementarity between the development of public policies and investment in the supply of goods and services in order to boost the competitiveness of rural productive sectors. To mitigate this implicit risk, as part of the public policy development component, it will be essential to identify and address, from the outset, any constraints that constitute a direct impediment to the effectiveness and sustainability of the productive investment.

The risks associated with program execution concern the executing agency's managerial capacity to carry out the planned activities. To mitigate these risks, support for institutional strengthening will be provided. In addition, an integrated institutional scheme has been designed, in which the capacity of the central-level institutions will be complemented by a participatory, decentralized process at the local level that involves both national private-sector organizations and civil society at the municipal level and enlists the support of nongovernmental intermediaries.

**Special
contractual
clauses:**

As a condition precedent to the first disbursement, the program coordinating unit must be set up (see paragraph 3.4).

As a condition precedent to the first disbursement for component 2, the general regulations under the Plant and Animal Health Law, Decree 157-94, must be established, with special reference to the regulations under Article 7 of that law, which concerns the frequency and methodology for updating the rates for services based on cost increases (see paragraph 2.12).

The following will be conditions precedent to the first disbursement for component 3 (productive investment): hiring of the technical and administrative personnel for the National Directorate of Sustainable Rural Development (DINADERS) and the National Fund for Rural Sustainable Development (FONADERS) and implementation of their operations manuals; implementation of the Operating Regulations for component 3; and drafting of pro forma model contracts to be signed with program intermediaries and beneficiaries (see paragraph 2.29).

Irrespective of whether the conditions precedent to the first disbursement have been met, the Bank may disburse up to US\$200,000 for program startup, provided that the basic terms established in the General Conditions of the loan contract have been fulfilled (see paragraph 3.28).

An independent firm will be hired, using funds from this loan, to conduct an external audit of the program (see paragraph 3.36).

**Poverty-
targeting and
social sector
classification:**

This operation qualifies as a social equity enhancing project, as described in the key objectives for Bank activities set forth in the report on the Eighth General Increase in Resources (document AB-1704). It also qualifies as a poverty-targeted investment (PTI) (see paragraph 4.9). The borrower will be using the 10 percentage points in additional financing. The operation qualifies as a PTI based on numeric criteria (see paragraph 4.10).

**Exceptions to
Bank policy:**

None.

Procurement:

International competitive bidding will be required for construction projects valued at US\$1,500,000 or more (none of the projects in this program is expected to exceed that amount), procurement of goods or equipment valued at US\$250,000 or more, and consulting services valued at US\$200,000 or more. Procurement of goods and services below these thresholds will be carried out in accordance with Bank procedures, as set forth in Annex D to the loan contract.